STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF BOND FINANCE

REQUEST FOR PROPOSAL FOR FINANCIAL ADVISOR TO THE TENNESSEE STATE FUNDING BOARD FOR TOLLWAY PROJECTS

The Tennessee State Funding Board ("SFB"), through the Office of the Comptroller of the Treasury, Division of Bond Finance is seeking proposals from financial advisors interested in:

- Phase I: Providing guidance and services through the planning and feasibility analysis of tollway projects in general and for various projects to be considered for funding.

- Phase II: If projects are feasible and approved by the General Assembly:
  - Assisting with long-term financial planning,
  - Advising on the impact of various organizational structures,
  - Advising on changes to the statute that enhance either the authorization, feasibility or credit worthiness of any debt issued,
  - Assisting in the development of business terms and conditions of the General Bond Resolution and
  - Assisting in issuing debt for the SFB to finance tollways within the State.

Pursuant to Chapter 597 of the Public Acts of 2007, http://tennessee.gov/sos/acts/105/pub/pc0597.pdf, the responsibility of developing any tollway lies with the Tennessee Department of Transportation ("TDOT"). The SFB is authorized to issue debt to finance the costs associated with the development of tollway projects and tollway projects themselves, if any. It is also authorized to procure necessary legal and technical advice, financial assistance and to pay the costs of the same, all of which may be funded from current funds of TDOT, the proceeds of the bonds or other state indebtedness. Note that no public/private partnerships are permitted under the Act.

At this time, no tollways exist in the State. General Obligation debt for highway projects is authorized annually by the General Assembly. There is no outstanding debt for highways or other surface transportation. The state funds its highway projects on a pay-as-you-go basis. (See Appendix A) The costs of designing and constructing highways and bridges are paid with current funds generated by fuel taxes and licensing fees. Such revenue may be matched with federal funds depending on the project.

TDOT Background

See Attachment A: Background on the Tennessee Department of Transportation, attached to this RFP.

Eligibility to Propose

Any firm responding to this proposal must demonstrate recent and extensive experience in the following:

- Highway and tollway financing at the state or regional level
- Development of feasibility assumptions
- Development of modeling and forecasting tools
- Development of the business and financial terms of bond resolutions
- Successfully bringing to market and selling the debt of new credits

The firm must be an independent financial advisory firm not engaged in underwriting. The firm must also demonstrate to the satisfaction of the SFB that it has both the financial capital and human resources to devote to this contract upon completion of the contract.

Pre-Proposal Conference

If your firm is interested in serving as the Financial Advisor, we invite you to participate in a pre-proposal conference call on October 1, 2007, at 3:00 p.m. CDT. Firms intending to participate in the conference call must register by 12:00 p.m. CDT on September 27, 2007, by calling Martha L. Brown at 615-747-5368.

Submission of Proposals

Nine copies of your proposal submitted in conformance with this Request for Proposal should be delivered by 12:00 p.m. CDT on October 17, 2007. Two (2) copies of the pricing proposal should be submitted in the same package in a separately sealed envelope marked "Pricing Proposal for SFB" and include the firm's name and date of submission. Proposals may not be faxed or emailed. Proposals should be delivered to:

Ms. Mary-Margaret Collier, Director
Division of Bond Finance
Comptroller of the Treasury
James K. Polk Building, Suite 1600
505 Deaderick Street
Nashville, Tennessee 37243
Phone: 615-747-5370
Email: mary.margaret.collier@state.tn.us

Rules For Proposal Submission

Costs Incurred In Preparing the Proposal. The SFB will not reimburse any proposer for costs incurred in preparing its proposal.

Contact with State Officials (elected or appointed) and Employees. No contact concerning this Request for Proposal should be made with any member of the SFB, the members of the General Assembly of the State of Tennessee, any member of the executive branch of government, any staff member of a constitutional officer, except to Ms. Collier, until the selection process has been completed. Failure to honor this request will be viewed negatively in the selection process.

No Joint Proposals. No joint proposals will be permitted.

Schedule for the Selection Process

The calendar is the proposed schedule for completing the selection process but may be changed by the SFB due to conflicts with other business schedules.

A. Calendar

September 21, 2007	RFP distributed
September 27, 2007, 12:00 p.m. CDT	Register for Pre-proposal conference call
October 1, 2007, 3:00 p.m. CDT	Pre-proposal conference call
October 17, 2007 12:00 p.m. CDT	Proposal due
	Internal analysis of proposals
Week of October 29, 2007	Interviews with short listed firms
	Internal analysis of pricing proposals
Week of November 5, 2007	Follow-up questions on technical and/or pricing proposals
November 8, 2007 (expected)	Staff Recommendation to SFB and SFB approval of Contract
December 1, 2007	Contract executed
Week of December 3, 2007	Initial meeting

B. Oral interviews will be held on site with each of the short listed firms, if necessary. Should on-site interviews be necessary, they will be scheduled with at least one week notice. Staff members who will have primary responsibility for this assignment are expected to participate in the interview process.

C. The contract must be completed and signed by December 1, 2007.

Proposal Requirements

Please be as brief as possible with all summary information and responses to specific questions. Lengthy responses and extrinsic documents are strongly discouraged.

I. Executive Summary

As a part of your transmittal letter you may include an executive summary of the reasons the SFB should select your firm as financial advisor. Limit the letter to two pages.

II. Experience and Capabilities

A. This section of the written proposal should include information relating to the following areas:

1. Since July 2004 in which states or for what regional authorities has your firm acted as financial advisor for tollway debt issuers? For those issuers, specify:

    - the roles(s) your firm played in the financings of these issuers,
    - the type of sale (competitive or negotiated),
    - the type of issuer involved (state, authority or regional authority),
    - the amount of debt issued and
    - the types of projects financed (highways, tollways, bridges, etc.)

2. Indicate the dollar volume and number of debt issues handled for these issuers, broken down between short-term and long-term debt. Also, identify taxable debt issues separately, if any.

3. Since July 2004 which of the following structures or services has your team arranged or rendered for financings related to highway/tollway debt? Provide the name of the issuer, frequency, and size of the related transaction.

    - Bank lines or letters of credit
    - Bond insurance
    - Put option bonds
    - Auction rate securities
    - Variable rate demand bonds
    - Tax-exempt or taxable commercial paper
    - Interest rate swaps
    - Interest rate hedges
    - Bidding of guaranteed investment contracts
    - Other financing structures
    - Other financing or investment contracts

B. Personnel:

1. How many professional level employees in your firm work directly in public finance?
    - Of these, how many are directly involved with state or regional level debt issuers?
    - Identify those staff members who would be assigned to the SFB team.
    - Provide background summaries for these staff members, including the year first employed by your firm.
    - Describe the role of each member of the team for this assignment.

2. What is the location of your home office? Does your firm provide public finance coverage from other offices? Describe how the State's account would be serviced.

3. If the senior project manager leaves the firm for any reason, how will the firm determine the staff member who will replace that senior team member? Other team members?

4. Provide information on the outcome of any litigation, regulatory or administrative proceeding, since July 2004, adverse to your firm in any of the professional activities of your firm.

5. Is your firm or any of its officers, directors or other key personnel now under indictment or court order, under investigation, or under order issued by a regulatory or governmental agency, or engaged in litigation which relates to the professional competence of your firm or which could impair the performance of the services required of a financial advisor?
    - Do you have any reason to anticipate that any of these actions will occur during the term of the contract to be executed pursuant to this RFP?
    - Provide details of any current or anticipated actions.

C. References:

Provide references and contacts for three (3) state or regional issuers for whom your firm has provided financial advisor services related to highway/tollway projects that we may contact.

III. Innovations in Public Finance

A. Describe in detail any feasibility and/or financing techniques which your firm considers innovative that you feel would be appropriate for the SFB to consider.

B. Are there innovations that have been used by your firm or other firms that you would not recommend to the SFB? Why?

C. What do you think will be the most important developments in public finance affecting the issuance of debt for tollways or other highway debt in the next three (3) years?

D. Describe two (2) state or regional level highway or tollway financings completed since July 2004 that the firm is most proud of. Identify any members of the team proposed to the SFB who participated in the financing and their roles

IV. Program Development and Guidance

A. Outline the process your firm would propose for determining whether or not tollway debt in general and/or for specific projects can be successful in Tennessee.

B. Based on your knowledge of the State, identify the top three (3) concerns the SFB must address to ensure its perception in the market, its rating, and its sale process for tollway debt.

C. If your firm recommended the use of short-term debt (i.e. commercial paper or VRDNs) during the construction period, discuss how that decision would affect the sale and marketing of (1) the short-term debt instrument and (2) the initial long-term debt issuance.

- Has the firm recommended such a structure for a de novo project in the past? If so, provide the circumstances.

D. Has your firm participated in a strategic planning process for a new business area, specifically tolling, with a client? If so, describe your role in the process and the impact of your participation.

V. Pricing Proposal

This financial advisory fee proposal for Phase I will not be contingent on the issuance of the debt, but will be paid based upon hours spent in providing services. Note, however, that if the General Assembly determines that it is in the State's best interest to raise fuel taxes in place of issuing tollway debt or to finance prospective projects using some other financing mechanism, the remainder of the contract may be terminated.

State contract requirements provide that every contract entered into by the State of Tennessee must have a not-to-exceed contract maximum. The SFB must make budgetary provisions on an annual basis to cover the expenditures until debt is issued, if any.

No payment of fees or expenses will be made for:

1. more than ten (10) hours per day, or sixty-five (65) hours per week of work billed by any one person without the expressed approval of the state's contract manager;

2. “intraoffice conferences”, “review of file”, or research on subjects on which a financial advisory firm may be expected to possess innate expertise (e.g. basic information on municipal and public finance);

3. duplication of effort or “double-staffing” of a project;

4. time spent on correspondence or on preparation of any written report or document a copy of which is not provided to the contract manager at the time such document is generated or written, administrative time related to billing, traveling to and from the state offices or communications on behalf of other clients while in Nashville.

All items listed on the “Pricing Proposal” form must be completed. For the level of personnel identified in the response on item II.B.1, state the proposed number of hours budgeted for the project and applicable hourly rate on the “Pricing Proposal”. These hourly rates and the percentage of time spent by the assigned individual should be used in calculating the advisory fee charged for each item included in the cost proposal.

Phase I.

Services in this phase include:

(a) a general conceptual study of the feasibility of tollways in Tennessee that should encompass (i) a review of the economic viability of tollways in the State, (ii) the manner in which tollways could fit into the overall funding of transportation needs in the state and (iii) recommendations on conceptual changes to State law, if necessary;
(b) presentations, both oral and written, to the SFB, TDOT and the General Assembly and its Transportation Committees; and
(c) assistance in the development of the implementation plan, criteria and review of the feasibility study for two specific projects selected by state officials.

With respect to the information provided in item IV.A and the personnel identified in item II.B.1, provide an annual hourly rate by level of employee for services provided in this phase of the contract. Identify the percentage of the work that each team member is expected to perform. While the SFB believes that Phase I services will be the focus of the first three years of the contract, proposers are requested to propose fees and charges for the duration of the contract. Proposers are required to honor those fees in the event such services are used during the entire term of the contract. For contract purposes the bid must include a not-to-exceed cap on service costs. Proposers are not to assume the responsibility for or the cost of hiring engineering consultants that would complete the engineering project feasibility study. This cost will be borne by the State. **The goal of this phase is to assure that any project feasibility study will meet the needs of the capital market.**

Number of Hours Per Year

Employee Level	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total					

Hourly Fee

Employee Level	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012

Annual and Total Fees

Employee Level	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total					

Phase II.

Note that this phase of the contract will be contingent upon the approval by the General Assembly of the construction of a tollway, and that the tollway is financed through the issuance of tollway debt.

For bidding purposes assume that two debt transactions, one short-term, one long-term, are sold during the last two years of the five year period.

A. Bid a not-to-exceed amount for the development of the business terms for any general bond resolution if projects are deemed financially feasible. Assume that both a short-term and long-term general bond resolution must be created. The cost must be bid as a not-to-exceed cap.

	Cap
Short-term general resolution	____________
Long-term general bond resolution	____________

B. Provide a fixed fee for any debt transactions. Assume that the short-term debt is issued in year three of the contract and the long-term debt is issued in year five of the contract. Identify a premium, if any, for the initial sale of debt under this program.

	Fixed Fee	Premium
Short-term debt	____________	__________
Long-term debt	____________	__________

<u>Other Items</u>

Item 1. Retainer.

Provide a retainer fee for 240 hours of service annually. These hours may be used at any time throughout the contract year. The retainer fee will be paid quarterly in arrears.

Services that may be included in retainer:

The following listed services are examples of services that would be performed and billed through the retainer fee. This listing is not all-inclusive. For the following listed services, please indicate the expense which you would expect the issuers to incur, including fees and out-of-pocket expenses.

- Various phone conversations with the SFB team unrelated to specific services identified in this proposal
- Participate with the SFB or TDOT in strategic planning process
- Assist with capital budget process relative to timing and source of funds for capital improvements
- Identify financing alternatives (various debt structures) and monitor market activity and debt transactions as related to state financing needs in order to keep issuers current
- Provide data and analysis of data concerning municipal debt

Annual Retainer Fee

FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	TOTAL

Item 2. Out-Of-Pocket Expenditures.

Provide an annual not-to-exceed amount for out-of-pocket expenditures.

Only the following categories of out-of-pocket expenses will be reimbursed upon proper documentation. Any apportionment of general overhead should be included in the fee charges and not as an out-of-pocket expense. All expenses must be backed by separate documentation. Indicate the expenses that your firm anticipates billing. NOTE:

Expenses of staff overtime or traveling to and from the State offices are not reimbursable except with prior written approval. Phone calls and faxes with respect to other clients, while in Nashville on State business, are not billable to the State. Direct pass-through costs are paid as invoiced from the service provider without overhead markup. These direct pass-through costs should not be included in estimate expenses.

Travel and Other Such Expenses:

Carefully review the website for State travel regulations. The website is located at:
http://www.tennessee.gov/finance/act/travel.html
Reimbursed travel costs must comply with the State travel regulations**.**

- Transportation (including parking)
- Meals
- Accommodations

Communication:
- Telephone
- Postage
- Shipping

Office:
- Duplication
- Computer time

Out-of-Pocket Expenses

FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	TOTAL

F. Provide a total not to exceed bid for the entire contract

Bid Summary

	Total Bid
Phase I	
Phase II	
Part A. General Resolutions	
Part B. Debt Issuance	
Other Costs	
Retainer	
Out-of -Pocket Expenses	
Total Not-to-Exceed Bid Over Term of Contract:	____________

General Requirements:

Independence: The selected firm shall certify that it operates as an independent financial advisory firm and will not, during the term of the contract, provide underwriting services to any client.

Open Records Act: All responses submitted to the SFB become the property of the SFB and are subject to the Tennessee Open Records Act. Information included in the proposal cannot be considered proprietary and excluded from the requirements of the Act.

Indemnification: The SFB will not indemnify the selected firm.

Insurance: The selected firm shall maintain professional liability insurance which will be evidenced by a certified statement of insurance reconfirmed annually and attached to the contract for services. The selected firm will be required to provide errors and omission coverage satisfactory to the SFB. The selected firm will be responsible for any deductible stated in any policy required under the Operator's insurance contract.

Right to Audit: The SFB reserves the right to audit the books and records of the selected firm with respect to charges made to the SFB under the contract.

Right to Waive Irregularities and Reject Proposals: The SFB reserves the right to waive any irregularities in its review and analysis of the proposals and to reject all proposals.

Annual Appropriations: Any contract entered into with the selected firm is subject to annual appropriation of funds.

Attachments:

A. (Appendix A) Background - Tennessee Department of Transportation
B. (Appendix B) Proposed Contract

Tennessee Department of Transportation
Background for Financial Services RFP

The Tennessee Department of Transportation (TDOT) has responsibility for a multimodal statewide transportation system that includes highways, public transit, aviation, railroads, waterways, pedestrian walkways and bikeways. TDOT is organized into four major areas: Headquarters, Bureau of Administration, Bureau of Engineering and Bureau of Environment and Planning and has four regional offices located in Knoxville, Chattanooga, Jackson and Nashville, with departmental headquarters located in Nashville. Each regional office is comprised of five to six district offices with a total of 22 district offices located throughout the state.

Tennessee's transportation system includes 13,835 miles of roadway of which 1,104 miles are interstate and 12,731 miles are state roads. The system includes 8,112 state-owned bridges and 11,403 locally owned bridges. There are 19 interstate rest areas, 13 welcome centers and nine truck weigh stations on Tennessee's interstate system.

Tennessee's transportation system also includes: 75 public use airports, six commercial airports, and 123 heliports; 887 main channel miles of navigable rivers; 18 short line railroads operating on 829 miles of rail and six major rail lines operating on 2,340 miles of rail; 29 transit (bus, van, and light rail) systems serving 95 counties; five regional bicycle trails totaling 690 miles, one 500-mile cross-state bicycle trail, 8,500 roadway miles with four-foot shoulders to accommodate bicycles; and 150 miles of greenways, sidewalks, and trails.

Funding for new facilities and the maintenance and preservation of existing facilities comes from a variety of federal, local and state sources. TDOT's FY 2007-08 budget is approximately $1.8 billion and the revenue sources are 51% federal, 46% state and 3% local.

The majority of federal revenue received by TDOT is from the Federal Highway Administration (FHWA) through the Highway Trust Fund (HTF). The HTF is funded primarily by federal taxes on gasoline and diesel fuel. The HTF finances the Federal-aid Highway Program with most funds being distributed by formula. Tennessee is a donor state meaning fewer funds are received back from the HTF as grants than are paid into the HTF as taxes. In FY 2008-09, Tennessee will receive HTF funding equal to 92.5% of the federal taxes collected in Tennessee. In addition, in the last three fiscal years federal rescissions have totaled $197.3 million. Rescissions ranging from $60 to $80 million are anticipated for the current fiscal year and in FY 2008-09. As a result some projects have been postponed to future years. Also, as the amount and timing of federal funds ultimately to be made available remains uncertain, TDOT's ability to forecast and plan with a reasonable degree of confidence is severely limited.

Other federal agencies that provide funding to TDOT are the Federal Transit Authority (FTA), the Federal Aeronautics Administration (FAA) and the National Highway Traffic Safety Administration (NHTSA).

The major source of state revenue is taxes on motor fuels and vehicle registration fees. Collectively these highway user fees are very stable but experience little growth from year to year. Typically, collections increase from 1% to 2% each year. Taxes on fuel associated with aviation, rail and waterways are accounted for in the Transportation Equity Fund (TEF) and are dedicated to those modes. Revenue from local agencies is typically for the required match on either federal or state grants. The sources of funding for FY 2007-08 and a summary and description of the major revenue sources is shown below.

Fiscal Year 2007 – 2008

Description	Amount ($M)	% of Total
Highway User Fees		
Gasoline Tax	$ 276.4	15.1 %
Motor Fuel Tax	135.8	7.4
Special Petroleum	34.2	1.9
Vehicle Registration	211.2	11.5
Total User Fees	657.6	35.9
Other Fees & Taxes	6.8	.4
TEF	47.0	2.6
Bond Authorization	83.8	4.6
Fund Balance	12.0	.7
Miscellaneous	18.2	1.0
Gen. Fund Transfer	15.0	.8
Total State	840.4	46.0
Federal		
FHWA	800.3	43.5
FTA	101.3	5.5
FAA	14.5	.8
NHTSA	25.3	1.4
Total Federal	941.4	51.2
Local	50.4	2.8
Total Budget	$ 1,832.2	100.0 %

The state gasoline tax is currently 20 cents per gallon (cpg). It was first imposed in 1923 at 2 cpg and was last raised in 1989 from 16 cpg to the current rate. The gasoline tax is distributed 12.73% to cities, 25.45% to counties, 1.85% to the General Fund and 59.97% to the Highway Fund. In FY 2006-07, the gasoline tax provided a total of approximately $615 of which about $370 million was associated with the Highway Fund. Due to the cancellation process for bonds, a portion of the gasoline tax equal to the amount of bonds cancelled is reclassified from Gasoline Tax Revenue to Sinking Fund Revenue.

The motor fuel (diesel) tax is currently 17 cpg. It was first imposed in 1941 at 7 cpg and was last raised in 1990 from 16 cpg to the current rate. The motor fuel tax is distributed 8.74% to cities, 17.47% to counties, 2.00% to the General Fund and 71.79% to the Highway Fund. In FY 2006-07, the motor fuel tax provided a total of approximately $186 million of which about $133 million was distributed to TDOT.

The special petroleum tax is currently 1.4 cpg on both gasoline and motor fuels. The 0.4 cpg is an environmental fee dedicated to underground storage tanks. The entire 0.4 cpg fee is distributed to the General Fund. Of the remaining 1.0 cpg, a fixed amount of almost $12 million is distributed to cities and counties and the remainder is distributed 2% to the General Fund and 98% to the Highway Fund. In FY 2006-07, the special petroleum tax provided a total of approximately $65 million of which about $34 million was distributed to TDOT.

Vehicle registration fees vary by vehicle classification (motorcycle, passenger cars, truck, etc.) and by vehicle weight in the truck classification. Also, additional fees are charged for special and/or personalized license plates. In FY 2006-07, registration fees for all classifications of vehicles and for all types of license plates provided approximately $257 million of which about $206 million was distributed to TDOT.

The TEF was established in 1987 and is funded by a sales tax on petroleum products used in aeronautics, rail and waterway modes of transportation. The revenue generated by each mode is dedicated to that particular mode. The sales tax on aviation and jet fuel is 4.5% and the sales tax on fuel used in locomotives and barges is 5.5%. In FY 2006-07, the TEF received a total of $48.7 million, distributed $38 million to aeronautics, $10.6 million to rail and $0.1 million to waterways.

For TDOT, Tennessee is a pay-as-you-go state but uses authorized but unissued bonds as a financing method and as a cash management tool. This method allows TDOT to accelerate the start of projects in anticipation of revenues expected to be received in future years. The primary benefit is that facilities are built or improved earlier and at a lower cost than if the projects were not started until funds were traditionally available. Projects financed with authorized bonds are eventually converted and funded with regular state revenues. This method has been in use since 1986 and as of June 30, 2007, there is $799 million of authorized, unissued bonds.

Until recently, all bond authorization projects had been projects with only state funding. Beginning in FY 2004-05, Interstate construction projects estimated at approximately $200 million were scheduled to begin in downtown Knoxville. Due to the large amount of federal funds required and the limited amount of federal funds available, the optimum funding method was to spread the federal authorizations over several years. In that fiscal year and the next, a total of $160 million of authorized bond financing was budgeted for those projects. Employing advance construction methods, the federal share of these projects was financed with the authorized bonds and is being converted to regular federal-aid financing over a 5-year period that approximates the payout of the construction projects.

The schedule below shows the history of all state general obligation bond authorizations and cancellations for highway projects from FY 1986-87 through June 30, 2007.

(Amounts Indicated Per $M)

Fiscal Year	Authorized	Cancelled	Cumulative Authorization Balance
1987	$ 190.0	$ 0.0	$190.0
1988	52.0	0.0	242.0
1989	31.8	0.0	273.0
1990	87.7	0.0	361.5
1991	0.0	0.0	361.5
1992	225.0	75.0	511.5
1993	115.0	115.0	511.5
1994	233.8	83.8	661.5
1995	87.7	87.7	661.5
1996	77.0	87.0	651.5
1997	148.0	158.0	641.5
1998	75.0	75.0	641.5
1999	90.0	90.0	641.5
2000	83.8	83.8	641.5
2001	87.7	87.7	641.5
2002	80.0	80.0	641.5
2003	77.0	77.0	641.5
2004	74.0	74.0	641.5
2005	159.0	74.0	726.5
2006	156.0	82.5	800.0
2007	83.5	84.5	799.0

Contractor FEIN: _________

CONTRACT BETWEEN
THE STATE OF TENNESSEE, OFFICE OF THE COMPTROLLER OF THE TREASURY AND
[NAME OF CONTRACTOR]

This Contract, by and between the State of Tennessee, Office of the Comptroller of the Treasury ("Comptroller" or "State") and [Name of Contractor] ("Contractor"), for the purpose of retaining Contractor as Financial Advisor to the Comptroller on tollway financial issues of the State of Tennessee ("State") and the Tennessee State Funding Board ("Issuer") to assist the Comptroller in his capacity as Secretary to the Issuer. The Tennessee Tollway Act, Chapter 597, Public Acts of 2007 ("Act") authorized "tolling as an additional and alternative method for funding or financing the development and operation of highways and appurtenant facilities or other transportation-related facilities." The Tennessee Department of Transportation ("TDOT") is authorized to develop and operate tollway projects. The Issuer is authorized to issue revenue debt "for the purpose of financing of costs associated with the development of tollway projects and toll facility projects". The Issuer is further authorized to procure technical advice as deemed necessary.

WITNESSETH: In consideration of the mutual promises herein contained, the parties have agreed and do hereby enter into this Contract according to the following provisions:

A. The Contractor agrees to perform the following services:

<u>GENERAL</u>

1. The Contractor agrees to serve the State as tollway financial advisor to the State and to the Issuer. The Contractor will assign the following individuals to provide the services described in this Contract:

   Name, Title
   Name, Title
   Name, Title
   Name, Title

   These individuals will be assisted from time to time by other members of the Contractor's staff. The State has the right to approve or disapprove any proposed changes in the staff listed above.

2. The Contractor agrees that during the term of this Contract that it will not underwrite, or assist in the underwriting, of the debt of the State or the Issuer.

3. All computer applications, not subject to licensing agreements, developed by the Contractor for the provision of services under this Contract shall be made available for reimbursement by the State, and the State shall have the option of reimbursement.

4. No reports, information, or data given to or prepared by the Contractor under this Contract shall be made available by the Contractor to any individual or organization other than the

State or the Issuer or its members without the prior written approval of the Comptroller, except pursuant to legal process, regulatory requirement, or State open records laws.

5. The term of this Contract shall be from December 1, 2007 to November 30, 2012 ("Contract Term"). Contract years shall be from December 1 through November 30 of the following calendar year.

PHASE I.

6. Services in this phase include:

   (a) a general conceptual study of the feasibility of tollways in Tennessee that should encompass (i) a review of the economic viability of tollways in the State, (ii) the manner in which tollways could fit into the overall funding of transportation needs in the state and (iii) recommendations on conceptual changes to State law, if necessary;
   (b) presentations, both oral and written, to the Issuer, TDOT and the Tennessee General Assembly and its Transportation Committees; and
   (c) assistance in the development of the implementation plan, criteria and review of the feasibility study for two specific projects selected by State officials.

PHASE 2- ESTABLISHMENT OF TOLLWAY DEBT PROGRAMS

7. The Contractor agrees to perform the following services in connection with the establishment of general tollway debt resolutions or open indentures:

   (a) Recommend an organizational structure for the establishment of the tollway enterprise(s).

   (b) Advise and assist in rating assignment, maintenance and/or upgrade and assist in communications with rating agencies.

   (c) Provide general data and analysis of data concerning tollway debt.

   (d) Advise as to the method of sale (utilization of competitive, negotiated, or private placement) for particular debt transactions.

   (e) Prepare regular cash flow analyses, credit analyses, market analyses, secondary market information, and modifications to the marketing program for debt issues.

   (f) Subject to licensing requirements, provide the State, upon request, access to the Contractor's computer software (1) used to prepare cash flow analyses for bonds and (2) used to perform other financial analyses. Assist in establishing electronic document transfer capability between the Contractor and the State. The Contractor will be reimbursed for any time sharing costs incurred by the State's use of these programs outside normal debt issuance.

   (g) Assist in establishing accounting systems and procedures to comply with applicable state and federal laws or regulations as they apply to the Issuer's debt or with the requirements of the State's or the Issuer's bond resolutions or program documents and assist in the training of the Issuer's staff in the implementation of such systems and procedures.

PHASE 2 NEGOTIATED SALES FOR TOLLWAY DEBT

8. In connection with the negotiated sales of tollway debt of the Issuer, unless otherwise requested, the Contractor agrees to perform the following services:

   (a) Review the current status of resolutions, cash flow projections, balance sheet, and contingent obligations.

   (b) Discuss future program goals and specific requirements of the State or the Issuer relative to administrative costs and program size.

   (c) Assist in developing a specific financing plan and structure for the Issuer's tollway programs.

   (d) Assist in the development of a financing timetable which takes into account market trends, supply of competing issues, and investor purchasing patterns.

   (e) Assist in preparation of bond resolutions, modifications to existing resolutions, and other financing documents related to the financing.

   (f) Assist in developing rating agency presentations and follow-up, including agendas and required cash flow analyses.

   (g) Assist in the preparation of the preliminary and final official statements.

   (h) Prepare final cash flows and assist in analyses and preparing yield memorandum for arbitrage certification.

   (i) Advise on the need for and selection of national and local underwriters.

   (j) Prepare or assist in the preparation of a final report on the results of each negotiated bond sale including, but not limited to, the performance of each member of the underwriting syndicate (requests and allocations), distribution of bonds by geographical region and type of investor, pricing and expense characteristics of comparable sales by other issuers, etc.

   (k) Prepare amortization schedules by project and balance the individual schedules to the final amount of the bond sale.

   (l) Perform any other services, which, in the judgment of the State and the Contractor, are necessary for successful financings on behalf of the Issuer.

PHASE 2- COMPETITIVE SALES FOR TOLLWAY DEBT

9. As financial advisor on bond issues sold through competitive offerings, the Contractor agrees to perform all the services set forth in Paragraph A.6.(a) through (l) inclusive, except the services set forth in item (i). The Contractor also agrees to assist in the preparation of all documents, including but not limited to the notice of sale and bid form, necessary for a successful competitive bond issue, verify all bids submitted, and advise the State of the results of bidding.

RETAINER- ADDITIONAL SERVICES

10. During each twelve (12) month contract year of the Contract Term, the State and Contractor may agree to the performance by the Contractor of certain special studies and analyses and services not contemplated by Phase 1 or 2 above, up to 240 hours of service. Charges for such retained services will be billed in equal quarterly installments in arrears as specified in Paragraph B.1 without regard to actual timing of provision of services, including but not limited to the following:

    (a) Provide general data and analysis of data concerning transportation financing.

    (b) Assist with the capital budget process relative to timing and source of funds for transportation capital improvements purposes.

    (c) Provide such other reasonably related services as may be requested by the State as it relates to the transportation finance programs.

B. The State agrees to compensate the Contactor as follows:

TRANSACTIONAL FEES

PROFESSIONAL SERVICES RELATING TO PHASE 1

1. For planning and transactional professional services rendered under this Contract, the State shall pay the Contractor at the following hourly rates:

Position	XXXXXX Dollars ($XXX.00)
Position	XXXXXX Dollars ($XXX.00)
Position	XXX Dollars ($XXX.00)

PROFESSIONAL SERVICES RELATING TO PHASE 2

2. For planning and transactional professional services rendered in the development of the business terms for any general debt resolution if projects are deemed financially feasible, a maximum fee of $XXX,000 will be charged for a short-term resolution and of $XXX,000 will be charged for a long-term resolution.

3. For any debt issuance, the fixed fee for the transactional services shall be XXXX Dollars ($XXX,000.00) for short-term debt and XXXX Dollars ($XXX,000.00) for long-term debt. A premium for the initial sale of debt is XXX Dollars ($XX,000.00)

RETAINER FEES

4. In addition, the State will pay a retainer of XXX Dollars ($XXX) per contract year for consultations, initial planning of new programs and special projects. Monthly, the contractor will provide the contract manager notice of the number of hours expended by task under the retainer.

EXPENSES

5. The State shall reimburse the Contractor for the reasonably required, direct out-of-pocket expenses incurred in connection with providing services pursuant to this Contract and for which proper documentation is received. Such expenses shall include Contractor's counsel (except that the Comptroller retains the right to review and approve in advance the compensation of such counsel), travel, and communications. Maximum out-of-pocket expenses for the Contract Term shall not exceed XXX Dollars ($XX,000).

MAXIMUM CONTRACT AMOUNT

6. For the Contract Term the maximum amount that can be billed is the total of:

Fees for Phase I services	$,000
Fees for Phase II services	,000
Annual Retainer Fee	,000
Reimbursement of out-of-pocket expenses	,000
TOTAL	$,000

BILLINGS

7. No payment of fees or expenses will be made for:

   (a) more than ten (10) hours per day, or sixty-five (65) hours per week of work billed by any one person without the expressed approval of the contract manager identified in Paragraph C.12;

   (b) "intraoffice conferences", "review of file", or research on subjects on which a financial advisory firm may be expected to possess innate expertise (e.g. basic information on municipal and public finance);

   (c) duplication of effort or "double-staffing" of a project;

   (d) time spent on correspondence or on preparation of any written report or document a copy of which is not provided to the contract manager at the time such document is generated or written, administrative time related to billing, traveling to and from the State offices or communications on behalf of other clients while on travel status for the State.

8. Prior to beginning work on a debt transaction or a specific planning service, the Contractor and the Comptroller will mutually agree upon a maximum amount for fees (and for out-of-pocket expenses if anticipated to be significant) for that particular transaction or planning service. The Contractor agrees that it will not be compensated for services or reimbursed

for any expenses above the maximum amount agreed upon for the particular project without the prior approval of the Comptroller.

9. Amounts for reimbursements for computer applications included in Paragraph A.3 have not been included in the total compensation amount. This Contract will have to be amended to authorize payment of a specific amount in compensation for such computer programs.

10. Billings will be submitted **at least quarterly**. The Contractor agrees, when requesting payment pursuant to Paragraphs B.1, and B.2, above, to submit to the Comptroller invoices or other documentation clearly indicating the number of hours worked, the individual providing the service, the Issuer and project for which the service was rendered, and a brief description of the service provided. The Contractor further agrees, when requesting reimbursement for expenses pursuant to Paragraph B.5 above, to submit to the Comptroller invoices or other documentation clearly indicating the type of expenses, and, where appropriate, the individual incurring the expense.

11. Reimbursement for travel expenses (including but not limited to transportation, meals, and lodging) shall be in the amount of actual cost to the Contractor, subject to maximum amounts and limitations specified in the State Comprehensive Travel Regulations, as they may be from time to time amended, except as specifically approved in writing by the Comptroller.

C. The parties further agree that the following shall be essential terms and conditions of this Contract.

ESSENTIAL TERMS AND CONDITIONS

1. The Contractor represents and warrants that it operates as an independent financial advisory firm and will not, during the Contract Term, provide underwriting services to the Issuer on tollway debt.

2. The Contractor warrants that no part of the compensation provided herein shall be paid directly or indirectly to any officer or employee of the State of Tennessee as wages, compensation, or gifts in exchange for acting as officer, agent, employee, sub-contractor, or consultant to the Contractor in connection with any work contemplated or performed relative to this Contract.

3. No person on the ground of handicap, disability, race, color, religion, sex, age, or national origin, will be excluded from participation in, or be denied benefits of, or be otherwise subjected to discrimination in the performance of this Contract, or in the employment practices of the Contractor. The Contractor shall upon request show proof of such non-discrimination, and shall post in conspicuous places, available to all employees and applicants, notices of non-discrimination.

4. The Contractor, being an independent contractor and not an employee of the State of Tennessee, agrees to carry adequate public liability and other appropriate forms of insurance and to pay all taxes incident hereunto. The State shall have no liability except as specifically provided in this Contract.

5. This Contract may be terminated by the State by giving written notice to the Contractor, at least thirty days before the effective date of termination. In the event of early termination, the Contractor shall be entitled to receive just and equitable compensation for any satisfactory authorized work completed as of the termination date. The Contractor may

terminate the Contract by giving written notice to the State at least 90 days before the effective date of termination.

6. If the Contractor fails to fulfill in a timely and proper manner its obligations under this Contract, or if the Contractor shall violate any of their terms of this Contract, the State shall have the right to immediately terminate this Contract and withhold payments in excess of fair compensation for work completed. Notwithstanding the above, the Contractor shall not be relieved of liability to the State for damages sustained by virtue of any breach of this Contract by the Contractor.

7. This Contract may be modified only by written amendment executed by all parties hereto.

8. The Contractor shall maintain documentation for all charges against the State under this Contract. The books, records, and documents of the Contractor insofar as they relate to work performed or money received under this Contract, shall be maintained for a period of three (3) full years from date of the final payment, and shall be subject to audit, at any reasonable time and upon reasonable notice, by the Comptroller or its duly appointed representative. The records shall be maintained in accordance with generally accepted accounting principles and at no less than those recommended in the Accounting Manual for Recipients of Grant Funds in Tennessee, published by the Comptroller of the Treasury, State of Tennessee.

9. The Contractor shall not assign this Contract or enter into subcontracts for any of the work described herein.

10. The Contractor shall comply with all applicable federal and State laws and regulations in the performance of its duties under this Contact.

11. While the Contractor may provide advice and recommendations to the State regarding investment and long term financial planning issues, it is acknowledged that the State makes all investment and long term financial planning decisions at its own discretion.

12. This Contract is subject to annual appropriation of funds.

<u>NOTICE AND AUTHORIZED REPRESENTATIVES</u>

13. The primary point of contact for purposes of notice, invoicing, authorization of service or expenses, or other required communication between the contracting parties shall be as follows:

For the State:

John G. Morgan, Comptroller of the Treasury
State of Tennessee
First Floor, State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501
(615) 741-7328 (fax)
(For all purposes excluding invoicing)

Mary-Margaret Collier, Director of Bond Finance
Comptroller of the Treasury, Division of Bond Finance
Suite 1600 James K. Polk State Office Building
Nashville, Tennessee 37243-0273
(615) 747-5370
(615) 741-5986 (fax)
(For invoicing) ("contract manager")

For the Contractor:

Name, Title
Firm.
Address
City State Zip
(phone)
(fax)

IN WITNESS WHEREOF, the parties have signed this Contract by their duly authorized representatives on the dates indicated below.

CONTRACTOR

By: ______________________________________
Name, Title

Date: ____________________________________

STATE OF TENNESSEE, OFFICE OF THE COMPTROLLER OF THE TREASURY

By: ______________________________________
John G. Morgan
Comptroller of the Treasury

Date: ____________________________________

APPROVAL AS TO FUNDING:

____
David Goetz, Commissioner of Finance and Administration

Date: ____